

Gender-neutral pricing: how will it affect your business?

The original EU legislation aiming to combat gender discrimination dates back to December 2004. However, it included an opt-out which meant that insurers could continue to use gender as a rating factor for insurance premiums and benefits.

The opt-out was challenged in 2008, and the European Court of Justice subsequently ruled that:

- the opt-out would be invalid from 21 December 2012
- unisex pricing must be used for new policies from 21 December 2012
- there could be no retrospective for policies sold before 21 December 2007.

EU Guidance was issued on 22 December 2011 which confirmed that from 21 December 2012 for new contracts, individuals' premiums and benefits should be calculated on a gender neutral basis.

So what does this mean for insurance pricing?

Typically at the moment females pay about 20-25% less for life assurance, about 50-80% more for income protection and about the same or a little less for critical illness.

So, what will rates look like once they are on a unisex basis? Common sense suggests they will be somewhere between male and female rates, and the exact position will depend on the mix of males and females assumed in the rates calculation.

As for Joint life rates they are currently usually calculated from the sum of two single life rates with a deduction of some sort, but the deduction approach may change slightly in future to reflect the gender mix of joint life cases rather than the assumptions used for single life cases.

It seems relatively straightforward but that is not all that the pricing actuaries have got to think about. On 1st January the taxation basis of the business within the insurance company will change and this will generally mean that life and critical illness rates for many companies will increase across the board. It is predicted that the loss of this tax relief might result in rates increasing by about 10%.

So when new rates are implemented in late December they will reflect both changes. For life cover on males the increase from taxation might broadly cancel out the reduction from gender cross-subsidy, while female rates will go up by more than they would otherwise, and critical illness rates will also increase although the amount will vary. Luckily income protection is not affected by the tax changes.

The new unisex rates have to be in place by 21/12 at the latest. The deadline is not changeable. Any contracts not concluded by that date cannot be processed on gender-specific rates, and that will over-rule any validity which may appear on a quote, so insurers will need to look at the relevant wording on their quotes to explain the deadline.

Timings as regards moving to gender neutral pricing will differ between insurers. Even if insurers are not willing to write business on gender-neutral terms in advance of other companies changing, they could choose to publicise what the new rates will be to enable you to make informed decisions on when to complete their contract, but doing this on every case is likely to present logistical problems.

But what about underwriting, especially where there is a medical risk involved which is gender-specific? It will be acceptable to ask gender-specific questions, to operate different rules for requesting medical tests and to make the relevant underwriting decision on an individual reflecting a risk which differs between men and women, so we will not after all have to impose odd decisions such as rating a male for a family history of breast cancer in female relatives.

So the change to gender-neutral pricing is more than just a rather large reprice to be implemented the week before Christmas. For insurers there are a great many issues to consider and decisions to make, and advisers need to be alert to both the opportunities and the unavoidable frustrations which the change will bring.